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## Threat Outlook

### Lower Oil Prices: Impact on the Soviet Union

For a variety of reasons, the Soviet Union has so far escaped the financial impact of the 40 percent decline in real oil prices since their 1981 peak.

-- The drop in European currencies against the dollar has reduced the cost of manufacturers imports.

-- Falling agricultural prices have also eased the import burden.

-- On the export side, prices paid for Soviet oil by East European importers continue to increase under a formula which phases in global prices over a 5-year period.

As a result of these factors, the ratio of Soviet export prices to import costs has remained roughly constant over the past five years even though oil and gas account over half of Soviet hard currency sales.

A major decline in oil prices could alter several of these favorable factors, although the timing and extent of changes in these elements is impossible to gauge.

-- A major, sudden decline in oil prices would give a boost to European currencies relative to the dollar.

-- The improved global economic performance that would result from lower oil costs could also help firm up dollar commodity prices.

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-- Increases in oil charges to customers in Eastern Europe will end this year--prices are now above global levels--and prices will decline in 1986.

Lower oil prices could also affect Soviet military sales. About half of their military hardware exports go to Syria and Iraq and are paid for with the assistance of Saudi Arabia and other Gulf exporters.

On the minus side, lower prices would virtually end Norway's hopes of developing the Sliepner and Troll gas fields in the North Sea--the British yesterday pulled out of the bidding for Sliepner gas--giving the Soviet Union a stronger competitive position in the European gas market during the 1990s.



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